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SUBJECT: THE STATUS OF SOUTH AFRICA'S MEGA-HYDROCARBON PROJECTS

REF: 08 Pretoria 2400

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¶1. (SBU) SUMMARY: South Africa is aiming at a number of mega-hydrocarbon projects, highlighted at a recent oil and gas conference. U.S. firm Forest Oil is very close to gaining its long-awaited production license for an offshore gas field in the Western Cape, which could alleviate regional power shortages there. State oil firm PetroSA is confident that it can bring its ambitious 400,000 barrels-per-day refinery in the Eastern Cape to realization, despite challenges with financing and marketing/transport of the refined product. End Summary.

¶2. (SBU) Minerals/Energy Officer attended the Petro.t.ex Africa Midstream and Refining Conference June 9-10 and gave a presentation on U.S. views on carbon capture and storage (CC&S). He highlighted the U.S.DOE-led Carbon Sequestration Leadership Forum for its role in fostering international partnerships in this area and successfully pushing for CC&S to be recognized as an acceptable carbon mitigation approach under U.N. conventions.

Offshore Gas as Part of the Power Solution

¶3. (SBU) U.S. firm Forest Oil Commercial Director John Langhus told Minerals/Energy Office that Forest is on the verge of obtaining its production license for its Ibhubesi gas project, north of Cape Town.

This is a step change from Forest's earlier frustration with the government licensing process, including conversion to "new order" licenses under most current regulations (reftel). Langhus told the conference that Forest and its partners planned to invest up to \$4 billion in developing an offshore gas platform and an associated onshore processing plant on the west coast. He said the project expected first gas in 2012, assuming timely licensing to allow commencing development. Langhus anticipated initial gas flow of 100 million cubic feet per day, increasing to 225 million. He said initial flow rates could support power generation of 400-700 MW. Forest is in discussion with the government for provision of a gas pipeline to transport the fuel to industrial users, noting that Forest is not in a position to be the investor/developer of the pipeline.

PetroSA's Ambitious Plans for a Mega-Refinery

¶4. (SBU) State oil company PetroSA Commercial Manager Vukani Khulu used the conference to present and promote the company's ambitious plans to develop the 400,000 barrel-per-day Mthombo crude oil refinery at Coega Port in the Eastern Cape. PetroSA is seeking an "anchor partner" to provide equity and crude supply and buy part of the refined product, which will adhere to world-class clean standards. The company is looking for financial support or guarantees from the SAG. Khulu said the projected cost of the project had declined 20 percent to \$9 billion due to a new refinery configuration; lower material costs, especially steel; and lower engineering and construction costs. The prefeasibility study undertaken by U.S. firm KBR is expected to be completed in September, which will allow the project to advance finalization of funding mechanisms.

¶5. (SBU) COMMENT: The recent establishment of a domestic presence for Forest appears to have borne fruit in the long company's quest for a production license. It will be remarkable given that the Department of Mining and Energy has been split into two ministries, with hydrocarbons remaining with Mining, rather than Energy. Forest must still work with the SAG to assure pipeline access to market for its gas production. PetroSA's refinery project is ambitious in its magnitude, so marketing and transport of product will be an issue. The project is far from a done deal.

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